

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6808

BILL NUMBER: SB 166

NOTE PREPARED: Dec 16, 2003

BILL AMENDED:

SUBJECT: Distribution of Local Option Income Taxes.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill provides for early distribution of revenue raised by an increase in the County Adjusted Gross Income Tax (CAGIT) rate or the County Option Income Tax (COIT) rate to finance a county jail or certain other specified structures.

Effective Date: January 1, 2004 (retroactive).

Explanation of State Expenditures: The Department of State Revenue and the State Budget Agency will have additional administrative expenses to implement the provisions of the bill. Under the bill, the Budget Agency would make a recommendation to the Department for the adjustments from the CAGIT rate increase made in Marshall and Elkhart Counties and for COIT rate increases for other specified structures. The impact to state expenditures by this provision would depend on the amount of administrative time or additional staff, if needed, to implement the bill.

Explanation of State Revenues: Under SEA 166-2003, certified distributions are collections reported and actually received a year before a certification. The certification is distributed the year after the certification is made. Therefore, a two-year time period exists from when the revenue is collected, certified, and then distributed. The bill would allow Marshall County and Elkhart County to receive an early distribution of their CAGIT certified distribution equal to the estimated additional revenue generated from the CAGIT rate increase used to finance a county jail, a juvenile center, or other related structures. Additionally, the bill would allow certain qualifying COIT counties to receive an early distribution of their COIT certified distribution equal to the estimated additional revenue generated from the COIT rate increase used to finance construction, acquisition, improvement, renovation, or to equip a county jail or related buildings/parking facilities.

Early distributions would be made before the actual collections are reconciled with tax return information. Given that the new certification process under SEA 166-2003 is based on actual collections, counties are no longer required to keep a three- or six-month balance. Therefore, any difference between the early distribution and actual collections would be made up temporarily by the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* The bill would allow certain counties that increase their COIT rate for the purposes listed above to receive adjustments to their COIT certified distributions earlier than under current law. Additionally, Elkhart and Marshall Counties would be allowed to receive adjustments to their CAGIT certified distributions more quickly than under current law. Under the bill, Elkhart and Marshall Counties would be able to receive adjustments not later than ten months after the month that their recent tax rate increase became effective. Elkhart County adopted an ordinance to raise their CAGIT rate by 0.25% to 1.25% on March 15, 2003, with an effective date of July 1, 2003. Marshall County adopted an ordinance to raise their CAGIT rate by 0.25% to 1.25% on February 10, 2003, with an effective date of July 1, 2003. From the effective dates listed above, both counties would be able to receive the adjustment allowed under the bill by May of 2004. Under current law, the additional revenue generated from the rate increase would not be received until 2005.

Background Information: P.L. 178-2002 authorized Elkhart and Marshall Counties to increase their CAGIT rate by either 0.15%, 0.2%, or 0.25% to finance, construct, acquire, improve, renovate, or equip jail facilities, or juvenile court, detention, and probation facilities.

Under current statute, counties with established LOITs that increase their rate do not receive the revenue from that rate increase for two years. This allows the Department of State Revenue time to reconcile the tax returns and determine actual collections.

The Elkhart County CAGIT CY 2004 certified distribution is \$36,876,043. The Marshall County CAGIT CY 2004 certified distribution is \$6,689,074.

Under current law, COIT may be imposed at a maximum rate of 1.00%. COIT counties may adopt the County Economic Development Income Tax (CEDIT). Counties that adopt both COIT and CEDIT may not exceed a combined rate of 1.00% with certain exceptions.

The following counties have not exceeded the combined COIT/CEDIT rate cap allowed under current law. If these counties increased their COIT rate to fund jail improvements, they would receive the early distribution of the additional revenue as provided under the bill.

County	FY 2004 COIT Rate	FY 2004 CEDIT Rate	FY 2004 Combined Rate	Additional Allowable COIT Rate*
Dearborn	0.6%	-	0.6%	0.4%
Delaware	0.6%	0.2%	0.8%	0.2%
Howard	0.7%	0.2%	0.9%	0.1%
Knox	0.3%	0.5%	0.8%	0.2%
Marion	0.7%	-	0.7%	0.3%
Spencer	0.3%	0.5%	0.8%	0.2%
Saint Joseph	0.6%	0.2%	0.8%	0.2%

*Assumes counties would not increase/decrease their CEDIT rate.

State Agencies Affected: Department of State Revenue; State Budget Agency.

Local Agencies Affected: Certain counties with the County Option Income Tax; Elkhart and Marshall counties.

Information Sources: State Budget Agency, Elkhart County Auditor, Marshall County Auditor.

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